GOVERNANCE SERIES 1

third edition

ten basic responsibilities of nonprofit boards

RICHARD T. INGRAM

BoardSource®

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BoardSource®
Empowering Boards. Inspiring Leadership.

BoardSource envisions a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. Our mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

Established in 1988, BoardSource's work is grounded in the fundamental belief that boards are critical to organizational success. With decades of hands-on experience working with and supporting nonprofit boards, BoardSource is the recognized leader in nonprofit governance and leadership, and a go-to resource for nonprofit board and executive leaders. BoardSource supports a broad and diverse cross-section of social sector organizations with

- leadership initiatives addressing key opportunities and issues within the nonprofit sector
- research and benchmarking of board composition, practices, and performance
- membership and board support programs
- customized diagnostics and performance assessment tools
- a comprehensive library of topic papers, publications, and downloadable infographics, tools, templates and more
- live and virtual education and training
- governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs
- a biennial conference that brings together approximately 800 board leaders for two days of learning and sharing

A note to our global readers:
The need for effective board leadership and governance knows no geographic boundaries, and BoardSource is committed to strong social sector board leadership and governance around the globe. While BoardSource uses United States laws and policies as the legal framework for our resources and recommendations, most of our resources do not focus on legal matters but rather on good governance practices, making them relevant to organizations working outside of the United States. We do suggest, however, that you refer to applicable laws in your country regarding financial reporting and other legal and transparency issues.

BoardSource is a 501(c)(3) organization.

For more information, please visit our website at boardsource.org, e-mail us at mail@boardsource.org, or call us at 800-883-6262.

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ABOUT THE BOARDSOURCE GOVERNANCE SERIES

The Governance Series, BoardSource's flagship series, was created to help nonprofit board members understand their primary roles and responsibilities. BoardSource believes that board members and chief executives who know and understand their mutual responsibilities are better equipped to advance their organizations' missions and, in turn, strengthen their communities.

WHY IS A STRONG BOARD IMPORTANT?

There's no denying that the 1.5 million nonprofit organizations in the United States play a vital role in society, from assisting victims of natural disasters to beautifying our neighborhoods, from educating our children to healing the sick. To ensure that their organizations have the resources, leadership, and oversight necessary to carry out these and other vital activities, nonprofit boards must understand and fulfill their governance responsibilities.

Although there have been headline-worthy scandals by a few nonprofits and their boards, most nonprofits try hard every day to be worthy of the public's trust. Nevertheless, BoardSource frequently hears from nonprofit board members and chief executives who say that they are not always sure what the basic components of good governance are or how to educate every board member so they can serve their organizations and the public in the best possible manner. The Governance Series helps bridge this gap in knowledge.

Within the board's broad roles of setting the organization's direction, ensuring necessary resources, and providing oversight, board members wear many hats. They are guardians of the mission; they ensure compliance with legal and financial requirements; and they enforce ethical guidelines for their organization. They are policymakers, fundraisers, ambassadors, partners with the chief executive, and strategic thinkers. They monitor progress, evaluate the performance of the organization and the chief executive, and demonstrate integrity in everything they do on behalf of the organization. Because of their many roles, board members need more than enthusiasm for a cause, passion for a mission, or just "good intentions." They need to understand all of their stewardship responsibilities and perform all of their duties, while remembering that it is the governing board that holds legal authority rather than individual board members. The chief executive is accountable and reports to *the board only.*

WHAT WILL BOARD MEMBERS FIND IN THE GOVERNANCE SERIES?

The Governance Series addresses all of the fundamental elements of service common to most boards, including board member responsibilities, how to structure the board in the most efficient manner, and how to accomplish governance work in the spirit of the mission of the organization.

1. *Ten Basic Responsibilities of Nonprofit Boards, Third Edition* (Book 1) by Richard T. Ingram describes the 10 core areas of board responsibility.

2. *Legal Responsibilities of Nonprofit Boards, Second Edition* (Book 2) by Bruce R. Hopkins, JD, LLM, elaborates on the board's legal responsibilities, liabilities, and the oversight it should provide to protect the organization.

3. *Financial Responsibilities of Nonprofit Boards, Second Edition* (Book 3) by Andrew S. Lang, CPA, explains board fiduciary responsibilities in the areas of financial oversight and risk management.

4. *Fundraising Responsibilities of Nonprofit Boards, Second Edition* (Book 4) by James M. Greenfield, ACFRE, FAHP, helps board members understand why they should be actively engaged in ensuring adequate resources for the organization — and how

to get involved in fundraising.

5. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition* (Book 5) by Kay Sprinkel Grace, MA, Amy McClellan, MNO, and John A. Yankey, PhD, shows how to define and communicate the organization's mission and link strategic planning and evaluation to achieve organizational success.

6. *Structures and Practices of Nonprofit Boards, Second Edition* (Book 6) by Charles F. Dambach, MBA, Melissa Davis, and Robert L. Gale offers guidance on how to build and structure the board (size, committees, term limits) and enhance leadership roles and the partnership between the chair and the chief executive.

Each book focuses on one topic, breaking information into manageable amounts that are easy to digest. Readers will find real-world examples that provide insight from effective boards, statistics from BoardSource research, lists of the most important things to remember, end-of-chapter questions, glossaries, and resource lists for further reading. The authors of the books are subject-matter experts with years of experience in the nonprofit sector.

WHO SHOULD READ THE BOOKS?

Board members and senior staff, especially chief executives, in nonprofits of all types and sizes will find the information contained in the Governance Series relevant. They can use it to set standards, to develop their own approaches to board work and interacting with board members, and to modify practices as the organization evolves.

There's something in the Governance Series for everyone associated with the board. A board chair, for example, might share *The Nonprofit Board's Role in Mission, Planning, and Evaluation* with board members before starting a strategic planning process or give *Fundraising Responsibilities of Nonprofit Boards* to the development committee. Chief executives will find it beneficial to give *Financial Responsibilities of Nonprofit Boards* to the board treasurer and to review T*en Basic Responsibilities of Nonprofit Boards* and give it, along with *Structures and Practices of Nonprofit Boards*, to senior staff and the board chair to clarify board–chief executive roles and strengthen the partnership with the board. All board members will want to read *Legal Responsibilities of Nonprofit Boards* so they understand how to protect themselves and their organization. The chair of the governance committee might give new board members all six books. This sharing helps ensure that everyone associated with the board is "on the same page" and has a common understanding of the board's responsibilities, expectations, and activities.

Board service entails serious obligations, to be sure, but it can also deliver immense satisfaction. A board that knows what is expected of it and performs at the highest level is a strategic resource for its organization and chief executive. Ultimately, this commitment by dedicated board members translates into greater mission impact in the communities they serve.

Editor's note: BoardSource has updated The Governance Series several times, most recently with generous support from the MetLife Foundation.

FOREWORD

Dear Leader,

At BoardSource, we believe that strong board leadership is fundamental to a strong and effective organization, and one of the first things we did as a new nonprofit in 1988 was publish *Ten Basic Responsibilities of Nonprofit Boards*. Since then, this little red book has been guiding and educating board members about their essential roles and responsibilities, and more than 300,000 copies have been distributed around the world.

Much has changed in the nonprofit sector since our founding, however, and as result, author Richard T. Ingram has updated "Ten Basics" to reflect the new challenges, opportunities, and realities that nonprofit boards face several times. In each edition, the ten core responsibilities have not changed, but some of the specific expectations or recommendations within each of those responsibilities have been updated or expanded.

The most significant and notable changes in this new, third edition are around the active and engaged role that we encourage board members to play as ambassadors for their missions. Nonprofit organizations work within a larger community context, and policy decisions can have a profound impact on our ability to fulfill our important missions. To succeed, we need to understand that context and work to inform decision-makers about the impact that those decisions will have on our communities and missions.

Board members have a unique and powerful role to play in that effort, which is why BoardSource — together with the Alliance for Justice, the Campion Foundation, the Forum of Regional Associations of Grantmakers, the John S. and James L. Knight Foundation, and the National Council of Nonprofits — launched the Stand for Your Mission campaign in 2014, which seeks to unleash the full potential of board engagement through advocacy. It is also why we are so pleased and proud to see the expectation for board members to serve as visible and vocal advocates for their missions incorporated so skillfully into "Ten Basics." I offer my thanks and appreciation to Mr. Ingram for his partnership and leadership in this effort. I am also appreciative of the support and guidance of BoardSource's Stand for Your Mission campaign partners, who provided expert input related to the board's role in advocacy, most especially Tim Delaney of the National Council of Nonprofits.

Finally, I thank you. By reading this book, you are showing your commitment to strong and effective board leadership. On behalf of all of us at BoardSource, I wish you and your mission great success.

Sincerely,

Anne Wallestad
President & CEO
July 2015

INTRODUCTION

IN THE SPIRIT OF SERVICE

A voluntary spirit and philanthropic instinct are seen in virtually all societies in the world through the formation of informal community groups, secular charitable nongovernmental organizations, or faith-based organizations and places of worship.

According to the Urban Institute, the United States alone has some 1.5 million voluntary, nonprofit, and nongovernmental organizations, with more certified every month by the federal government as tax-exempt entities. Although no one has calculated the precise number of directors on these governing boards — nearly all of whom appropriately serve without compensation — we do know that approximately 20 million of women and men accept the fiduciary and other responsibilities of board service at any moment.

RESPONDING TO INCREASED SCRUTINY

Those who serve on nonprofit boards face a host of high expectations. Governing boards are increasingly under scrutiny — first, and most appropriately, by their own members and their stakeholders. But continued scrutiny has also come from the media and government at all levels, as they demand to know more about what goes on in boardrooms, especially when things go awry.

This increased scrutiny has generated a mix of consequences and some ambivalence among board members. Ambivalence about new regulations, for example, stems from the unfortunate (and largely unfounded) perception that voluntary service on a board could bring exposure to personal liability if the organization fails to comply, even inadvertently, with such regulations. Furthermore, the law of unintended consequences always lurks behind every new regulation. The organizational cost of compliance (the cost of doing business) increases with each new unfunded mandate.

Thankfully, *very few* organizations in the vast and growing nonprofit sector have the kind of dysfunctional boards that lead to national scandals over finances, compensation practices, or other issues. Still, given the slightest hint of misconduct at any nonprofit organization, the public and the media are likely to infer that many more dysfunctional or unethical organizations not only misuse the public's philanthropic gift dollars but do so without paying taxes.

Because of the importance of public perception, a governing board that appears inattentive or lethargic can bring calls for more governmental intervention. New regulation may be appropriate and necessary, but it may also be unhealthy and counterproductive to the public good in the long haul. The leaders of nonprofit organizations should never assume, for example, that state and federal tax policy providing for the tax deductibility of gifts and grants will remain unchallenged.

The good news is that the volume and quality of information about good governance and responsible board leadership has grown enormously, along with new programs and services, including those of BoardSource. And with them have come determined efforts by tax-exempt organizations to strengthen the performance of their boards and management practices. Board members are more informed than ever about what is expected of them. Substantive board development programs have become more commonplace, "best practices" are more widely understood and implemented.

Perhaps most important, there is growing acceptance of the notion that good governance makes a difference in organizational effectiveness. Although empirical evidence still needs to be gathered more systematically on this score, there is little doubt that the quality of work by governing boards has improved considerably.

Richard Chait has observed at the BoardSource Leadership Forum that "Nonprofit boards today seem more self-aware and more enlightened, more determined to govern than manage, more guided by board policies than trustees' personalities, and more attuned to best practice than local custom. In a word, I believe boards have become more professional."

For this writer and student of board member education and governing board development, the most encouraging and demonstrable net result of current trends is that governing boards have become much more cognizant of best governance practices, much more willing and able to be self-correcting, much better at keeping their houses in order. They are raising the bar of expectations for themselves higher every day.

The many decades of having to endure the admonition from the business world — that nonprofit boards have a lot to learn from how investor-owned corporate boards function — are over. The for-profit, corporate sector is adopting best governance practices and policies commonplace in the tax-exempt, nonprofit sector — including periodic self-assessment of their policies and practices. There is, however, no room for complacency because good governance is *always* a work in progress — and more important than ever.

Finally, let's remember that governance is a distinctly human enterprise, and this old saw: The difference between an effective and ineffective board isn't that a good board doesn't make mistakes. It does. The difference is that a good board doesn't keep making the *same* mistakes over, and over again.

REDUCING THE AMBIGUITIES

This book, written especially for board members, aims to clarify and distinguish the board's corporate responsibilities and leadership from those of management. Indeed, the first step to an effective board is to minimize the ambiguities that inevitably surround its responsibilities. This means embracing good governance practices, beginning with a comprehensive job description for the board itself.

Although they are intimately linked, the *board's legal authority* and the *responsibilities of its individual members* are distinct. The board's legal *authority* and board member's *responsibilities* are complementary; although interdependent, they are not precisely synonymous. While the board's authority is rooted in state and federal law and regulation, the responsibilities of individual trustees are not. Put another way: Individual board members have no legal authority except when they make decisions as part of a legally constituted corporate body — i.e., as an officially convened governing board acting consistently with its own bylaws.

Although this book focuses on the board, a set of expectations that typically apply to those who serve on boards appears in Appendix I. In the diverse nonprofit sector, how a board actually uses its authority and how individual board members fulfill their responsibilities are affected by many factors, such as

- the organization's mission and purposes
- the organization's size and complexity
- whether the operating budget is large or small
- whether the organization is member-based
- the main sources of revenue
- whether the organization has a large staff or none at all

Your board's authority and responsibilities, and some of the best governance practices discussed in this book, should be specifically articulated in your organization's bylaws.

Five assumptions are implicit in the chapters that follow:

1. Because every organization is unique and is in a different place in its evolution, there is no single model of governance to emulate. All governing boards, however, share a common set of basic responsibilities. And there is a body of best practices and organizational principles that are broadly accepted and practiced. These responsibilities and best practices, in turn, provide a frame of reference for assessing board performance. Likewise, they call for the articulation of clear expectations for those who serve on boards (see Appendices I and II).

2. Board and board member performance depend greatly on the need for management, especially the chief executive, to understand and respect the governing board's duty to provide responsible oversight and help to set strategic direction. A board with motivated members will only be effective and consequential if its executive leaders really want an engaged board.
3. How a board organizes itself matters, arguably at least as much as the sophistication, commitment, skills, and experience of board members. Both who is "on the bus" and how they are organized to meet their responsibilities have profound implications for accomplishing mission and purposes.
4. The members of truly high-performing boards ask good and timely questions and are strategic rather than operational in their work. They do not manage programs or administer their own policies. Smaller organizations, especially those where board members also volunteer in functions that would typically be handled by staff, should be cognizant of the need to adjust expectations and guidelines for board members if and when the organization hires staff. It is critical that board members do not duplicate or interfere with staff member duties and responsibilities.
5. Over time, all organizations undergo a metamorphosis that calls for periodic evaluation, fine-tuning, and sometimes a major overhaul in how, and by whom, they are governed and how their board members are selected. High-performing boards consistently self-correct and look for or create ways to self-renew; boredom and routine in boardrooms spell trouble. As organizations grow in complexity and consequence, for example, how they *were once* governed is unlikely to be the same as how they *should* be governed.

This book addresses the 10 basic responsibilities of nonprofit boards within the broader context of contemporary best practices. Taken together, these 10 responsibilities constitute a job description:

1. Determine mission and purposes, and advocate for them.
2. Select the chief executive.
3. Support and evaluate the chief executive.
4. Ensure effective planning.
5. Monitor and strengthen programs and services.
6. Ensure adequate financial resources.
7. Protect assets and provide financial oversight.
8. Build and sustain a competent board.
9. Ensure legal and ethical integrity.
10. Enhance the organization's public standing.

You will find several discussion questions at the end of each chapter. These are offered to encourage board dialogue, either as part of board meetings or in board retreats. Individual board member responsibilities are cited in Appendix I. An illustrative approach to self-assessment by board members is in Appendix II.

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CHAPTER 1

DETERMINE MISSION AND PURPOSES, AND ADVOCATE FOR THEM

The board is responsible for ensuring that the organization's mission is clearly stated and enthusiastically supported. A commitment to the organization's mission should drive the board's and management's priorities. This usually takes the form of a relatively brief written mission statement, sometimes supplemented with a more detailed statement of the organization's goals or values, i.e., what it supports or believes.

The board and management should periodically review the mission statement to ensure it is useful, honest, valid, and current. It should articulate who the organization serves and explain what makes the organization distinctive by suggesting compelling reasons why individuals, foundations, and corporations should provide financial support. Although the board is ultimately responsible for the mission statement, wise chief executives and boards consult with the organization's stakeholders — its members, volunteers, staff, clients served, and others — in its revision.

A good statement of mission and purposes also serves to guide such undertakings as organizational planning, board and staff decisions about programs and services, volunteer initiatives, and priorities among competing demands for scarce resources. The board should periodically assess what the organization does to ensure it is not drifting away from its intended mission and purposes. The mission also sets the stage for developing fundraising strategies and helps to sustain public confidence and support. But there is more.

Boards and their members should be conscientious ambassadors and advocate for their organizations. They should “stand for their mission” (www.standforyourmission.org) by communicating and connecting with community leaders and others who are in positions to make decisions that could positively — or negatively — impact their organization’s work. Chapters 6 and 10 elaborate on this responsibility, but it is worth noting here that at least annually, the board should reserve time at a board meeting to discuss what its members can do for the organization beyond faithful participation in board and committee meetings to advance the mission. Often, what board members do *between* meetings — such as advocate — matters as much as what is accomplished *in* regularly scheduled meetings.

Finally, there is a distinction between an organization’s mission (why it exists and the need it is meeting) and its vision (what its community will look like if its mission is achieved). The most important points, however, are that every organization should clearly describe why it exists and what it provides to its intended beneficiaries; that missions evolve over time; and that the most conscientious and high-performing governing boards and board members bring passion to their work and exercise it in their individual, collective, and coordinated activity to promote the organization outside the boardroom.

For more detail on setting or resetting organizational mission, see *The Nonprofit Board’s Role in Mission, Planning, and Evaluation,* Book 5

in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. Do we use our mission statement as our first frame of reference when making decisions?
2. Does our statement of mission clarify what makes our organization distinctive and sets it apart from others in the same field of interest?
3. Have we recently adjusted or reaffirmed our mission statement?
4. What new or emerging changes in the environment or our organization's circumstances should cause us to reconsider our mission statement's adequacy or appropriateness?
5. Do we periodically assess our efforts "to get our story out," that is, to advocate with those who can help us to achieve our mission and purposes, whether with appropriate government agencies, the media, or other nonprofit organizations with whom we partner in common cause?

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CHAPTER 2

SELECT THE CHIEF EXECUTIVE

Choosing a new chief executive is arguably among the most consequential of board decisions. Indeed, a board's ability to consistently recruit, support, and retain an effective leader is a key mark of its own effectiveness and a critical factor in organizational success.

The governing board usually makes the final decision, although some organizations appropriately and necessarily welcome input from their stakeholders. It's also appropriate that the board or the search firm ask senior staff members for their advice.

Before launching a search, it's essential to have a list of desired attributes to be sought in serious candidates for new leadership, a clear consensus on the organization's mission and current circumstances, and its strategic and most pressing priorities and goals that are expected to be addressed. That is, what do we expect a new chief executive to achieve? The usual clichés should be avoided in any attempt to cite specific characteristics such as "we seek an effective communicator," or "outstanding candidate will be an effective speaker," or "we seek an experienced and proven fundraiser," and the like. The reality is that true leadership is more than the sum of a simple list of obvious skill sets.

It is far better to address in job announcements the kinds of issues and needs that will constitute the challenges for the new leader, with the desired mix of experience and personal style that are being sought. There is no single prescription that works for all organizations, of course. Ironically, even though we know "leadership" when we see or have it, the reality is that we don't really know how effective our new leader will be until he or she has been in the saddle for quite some time. Personal "style" is as important as substance and competence.

Succession planning has become a watchword in today's boardrooms, although, unfortunately, more lip service than substance is often given to it. This concept, borrowed helpfully from the for-profit sector, often involves identifying and promoting successors to top management positions from within the enterprise. There is empirical evidence within that sector that it more often than not provides good results (see, for example, *Good to Great* by Jim Collins, 2001). In nonprofit settings, however, there seems to be a mindset that a search must always be conducted even when the board believes that it has the "right" leader within its current management team. That may or may not be true, of course, but there is no substitute for members of governing boards to *use their very best judgment* about outstanding candidates who are already within their organizations and who are ready to assume much more responsibility.

Likewise, we should remember that effective chief executive performance is intimately linked with the board's effectiveness. They are dependent on one another — one can be little better than the other. One moral here is to ensure that the board and its leaders are prepared to provide the necessary commitment of time and support to help get the job done. Many boards anticipate the need to assure the person ultimately selected, that, for example, its executive committee is prepared to be more readily available to help, advise, listen, acculturate, and support the new leader in his or her transition. Board officers have a special responsibility in this transition, of course, even as all board members should be aware that one mark of an effective organization and governing board is their ability to identify and keep a strong leader long enough to effect the changes and improvements in the organization's conditions that were identified prior to the launch of the search process.

At the same time, such help for the new leader should be offered without being intrusive or disrespectful of his or her leadership and prerogatives. Effective leaders, we should remember, assume they were hired because there is confidence and trust in their ability to get the job done. The board's chair and other leaders, indeed the board itself, must find the proper balance between standing "up too close" or "back too far."

Especially in large and complex organizations, board leaders should remain open to the idea of identifying, developing, and promoting promising talent from within — and even encourage such thinking to provide a wider pool of candidates. On the other hand, the board should not conclude too quickly that internal promotion is the only possible course.

Succession planning is part of the board's responsibility to ensure the organization is prepared for the future. When done properly — with the full commitment and assistance of the current chief executive — the odds of making a smooth transition to new leadership increase dramatically.

LAUNCHING THE SEARCH

When a vacancy occurs in the chief executive position, the board needs to decide whether to hire an executive search firm to help with the search process, including candidate recruitment, or to conduct the search on its own. In addition to a carefully considered search process, the board's duty is to provide a positive working environment that enables the chief executive to lead and perform effectively.

In a national, regional, or local search for a new leader, with or without a strong internal candidate, the board should

- review and reaffirm or update the organization's statement of mission and purposes
- conduct an inventory of the organization's current and emerging strengths and needs, perhaps aided by the search principal (if a firm is retained to help with the search)

- agree on clear objectives and clarify expectations for at least the first year of the new chief executive's service, plus a few major long-term priorities and goals
- articulate the particular characteristics, skills, and style it seeks in its new chief executive
- provide an adequate compensation package and other employment terms
- clarify its own functions as distinct from those of the chief executive and staff, including the chief executive's responsibility to select and supervise a management team without intrusion
- clarify its expectations of the chief executive and what the chief executive can expect from the board
- reaffirm that the organization's chief staff officer (by whatever title) is indeed the chief executive rather than the board's elected volunteer leader. Even though the board and the chief executive need to work together in close partnership, it is necessary to recognize the distinction between management and governance.

Much of the foregoing is usually summarized in a position description used to advertise and to recruit candidates. Although the board's search committee, usually with the search firm's help, takes the lead in developing the position description to ensure it is current and relevant to the organization today, the full board should always be given the courtesy of reviewing and suggesting improvements to it.

In the final stages of a search, conduct a thorough due diligence process for each of the top two or three candidates. Searches that result in disappointing decisions usually overlook speaking directly with people who really know and have worked with *and* for the finalist. Ideally, secure a well-connected, qualified, and highly respected third party to conduct discreet inquiries; this goes beyond a simple reference check process and should not be delegated solely to the search firm, if one is used.

Once a board has hired a new chief executive, it needs to do the right things to keep that person. Those right things include consistent and predictable support from the board, coupled with competitive and appropriate annual performance assessments that tie to compensation adjustments.

For more on succession planning and other matters relating to the chief executive, see *Structures and Practices of Nonprofit Boards,* Book 6 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. What process do we have in place for supporting and retaining our chief executive?
2. Do we engage in succession planning with the assistance of the chief executive?
3. Do we apply good principles of succession planning to board leaders as well?
4. Have we agreed on the goals and priorities for the incoming chief executive in the next few years? The next five years?
5. Has our organization changed so significantly that we need to review and revise the chief executive's job description?
6. What qualifications and experience should we look for in a search firm? What should we expect of the firm, and what should it expect of us as a full partner in the search process?

3

CHAPTER 3

SUPPORT AND EVALUATE THE CHIEF EXECUTIVE

Selecting the top staff person is only the beginning of what everyone hopes will be a long and productive relationship with the governing board, a relationship that will bring real achievement and long service to the organization.

The chief executive's success is linked to the board's determination to do its part to sustain an effective relationship — one marked by mutual respect on both sides and an understanding of the distinction between board and executive responsibilities that is determined, first and foremost, by open communication.

Put another way, the ideal relationship is marked by continuing candor about expectations rather than relying solely on the annual review to provide feedback. The board chair has an especially important responsibility, as does the chief executive, to provide the board with the bad news as well as the good.

The board chair's and chief executive's respect for one another's different but complementary responsibilities affects how well the board itself functions. Again, the chief executive and board chair positions are distinct and separate; their responsibilities should not be confused.

The chief executive's and chair's shared responsibilities mostly center on working together to ensure the board is functioning effectively. In the best of circumstances, they are seen by everyone as collaborating on virtually everything related to the board's agendas, committee assignments and activities, matters bearing on trustee candidate cultivation and recruitment, board retreat planning, and the like.

A SUPPORTIVE ENVIRONMENT

Providing personal and organizational support for executive leadership, periodically assessing the chief executive's performance, and acknowledging superb service through appropriate compensation are key board responsibilities as well. A high-performing board gives ongoing attention to these matters.

The only place the chief executive can look for support that really counts is in the governing board, beginning with its top elected leader — the chair. For the chair and the board, being supportive means being reasonably predictable in how they react to and address emerging problems, encouraging the chief executive to be decisive, standing by the chief executive when constituencies may not like certain decisions, providing encouragement when it may be needed, and responding to the chief executive's requests for help by being readily available.

The quality of the relationship between the board chair and chief executive cannot be overemphasized. In fact, one characteristic of a high-performing board is its record of retaining effective chief executives over time. The board chair has special responsibilities in this regard: The chair–chief executive relationship affects the executive's relationship with the entire board.

The chief executive's second line of support ordinarily comes from and through the board's executive committee, or from the board's elected leaders when the board does not have one. But make no mistake about it: The chief executive welcomes an occasional pat on the back or a word of support from any board member at any time on any successful initiative!

A subset of board members may assume special responsibility to monitor the chief executive's morale, understand the issues of greatest concern, and look for opportunities for the whole board to offer needed support through the good times and especially the difficult times — there are plenty of both! Again, the way a board's leaders react to bad news reveals their true character as well as their confidence in the chief executive.

Specifically, the board should ensure that the chief executive

- is introduced by board members to key community leaders who can assist and support the organization
- receives invitations to important social events, opening opportunities for the chief executive to speak at significant or high-profile community functions
- receives frequent, substantive, and constructive feedback (not just at the time of the annual performance review)
- has confidence that the board chair will intervene with any board members who may misunderstand or abuse their positions
- feels that on-the-job performance is being assessed fairly and appropriately, without resorting to oversimplified checklists, or rating scales
- receives compliments for exceptional initiatives; every chief executive appreciates the occasional "job well done" from board members, especially the board's leaders
- is encouraged to use professional and personal leave time for renewal
- feels that at least the board chair is aware of and sensitive to any personal situations or needs and respects the confidentiality of their private conversations about personal issues

In all of their dealings, both the chief executive and the board should do their best to adhere to the doctrine of no surprises, whether the news concerns cash-flow problems or major personnel problems. In other words, the board chair and the full board should be the first to know of any problems rather than hearing the news from others or reading about them in the newspaper. Similarly, the chief executive should know early on if the board or its leaders have concerns about staff management or leadership. The chief executive can make improvements if there is merit before little irritations or disappointments become more serious and consequential.

PRINCIPLES OF PERFORMANCE ASSESSMENT

Performance reviews for executives with long periods of service — whether they be formal, written annual reviews (recommended by BoardSource) or more casual, discussion-based reviews — work best when guided by the following four principles:

1. *The primary purpose of performance reviews is to help the chief executive perform more effectively and to proactively and constructively address any performance issues.* To keep the process healthy and constructive, compensation and contract renewal decisions should not be considered the only or primary purpose for conducting executive performance reviews.

2. The chief executive should be consulted on and comfortable with the review process.

3. The chief executive's and board's performance are interdependent — neither can be assessed completely independently. In this regard, the board should periodically and earnestly assess its own performance.

4. It is the board's responsibility to assess the chief executive's performance, which includes his or her leadership and management of the senior team and organization as a whole. It is *not* the board's responsibility to assess the performance of any staff member other than the chief executive. This point does not exclude individual board members from occasionally expressing their positive or negative comments *privately* to the chief executive concerning a staff member when appropriate, however.

PERFORMANCE REVIEWS

Evaluating the chief executive's on-the-job performance, whether through informal or formal means, can be a delicate business. To reduce the potential for confusion or misunderstandings, the board and chief executive should agree on evaluation purposes and processes. Annual goals and objectives, mutually discussed and agreed on, should serve as the primary, but not exclusive, criteria in performance reviews.

It is interesting to note, by the way, that simply relying on the chief executive's job description to provide the benchmarks or key elements for performance assessment is often found to be inadequate or even unworkable. There are several reasons for this, including the inherent limitations of typical job descriptions that generally fail to capture what really characterizes effective organizational leadership. Although efforts to improve such job descriptions may be a laudable effort in this regard, the larger point made here is that leadership is difficult to reduce to a job description for the purpose of performance assessment. The qualities that distinguish effective leaders from ineffective leaders in certain circumstances, for example, are not found in simple checklists. There are special challenges accompanying the board's responsibility to assess the chief executive properly, effectively, and sensitively, lest the process do more harm than good to the position or its incumbent.

In the end, although we may not be able to precisely define what outstanding leadership is, we know it when we see it! Let's admit that this very subjective process is more art than science, more human than anything else. We can and should use various objective measures or strategic indicators of the organization's progress on its financial condition, for example, as part of the assessment process — but whether a leader stays or goes often hangs on much more subtle factors.

Annual Review

Although the board chair usually leads the annual review process, she or he may designate another senior board member to take the lead, on behalf of the executive committee or with an ad hoc committee specifically charged with conducting the performance review and recommending possible compensation adjustments. The committee's chair should provide an opportunity for all board members to submit written comments with assurances that they will be held confidential and without attribution.

The annual review process should center primarily on the annual goals mutually and previously agreed upon by the board and the executive. The chief executive should prepare a candid and confidential report, first for the board committee responsible for conducting the process that may subsequently be provided to the full board, perhaps with its own report. The report should present a review of the preceding year with explicit reference to the annual goals — those achieved and those that were frustrated. In effect, it is the chief executive's statement on the condition of the organization and calls attention to noteworthy issues and achievements. The report should also suggest new and perhaps some continuing goals that the chief executive believes the board should consider for the next 12 months — appropriately linked to the organization's current plan and priorities, of course.

Boards should be cautious to avoid overly simplistic or generic assessments that risk focusing feedback on general impressions, rather than substantive results and leadership characteristics and aptitude. Board members should offer their feedback on the chief executive's most noteworthy achievements and be asked to identify areas in which the chief executive could improve. The board chair (or designee) should present a summary of major themes and points of consensus to the committee, *after sharing feedback personally with the chief executive.*

At a meeting with the chief executive, the chair uses the board's feedback, coupled with the executive's written report, as the basis for a good conversation. It eventually turns to each of the executive's proposed goals, which are then adopted, clarified, amended, or expanded based on previous input from the board. Subsequently, the chief executive's report and agreed-upon goals should be sent to all board members with an invitation to offer any further comments to the board chair. Thereafter, the committee can proceed with private conversations about possible compensation adjustments.

All board members understandably expect to hear about the results of the performance review process, as well as compensation adjustments, in executive session. This should be done by the board chair or appropriate committee chair in reasonable detail, and he or she should be able to respond to any questions that may be asked. Board leaders who fail to ensure that this is done at the appropriate time will usually wish they had!

Comprehensive Review

A comprehensive review process is ordinarily reserved for chief executives who have served for at least three years, but more likely five or so years. Timing is often tied to major extensions of employment agreements, if applicable. The comprehensive review process, with the chief executive's consent (especially if it is not included in an employment agreement), should invite the participation and views of at least senior staff and often includes others who represent key stakeholder groups, such as constituencies, program and service users, donors, and community leaders.

When budgets permit, consider retaining an experienced and qualified consultant to conduct the process, someone mutually agreeable to the chief executive and the board's leaders. This investment is especially worthwhile when the governing board and the chief executive are prepared to make a commitment to one another for an extended period. In any case, it is not a good practice for board members to conduct interviews of staff members about their chief executive's performance if they expect candor and to avoid awkwardness for themselves and those interviewed.

The Compensation Question

A good performance review process helps to inform compensation adjustments. However, it is also important to remember the Internal Revenue Service's "safe harbor" measures if an organization comes under scrutiny about possible "excessive compensation." The IRS expects all nonprofit, tax-exempt organizations to demonstrate that, when setting the chief executive's compensation, they have studied compensation levels at similar-mission organizations, documented the findings, and ensured that the final decision was made by individuals who did not have a personal stake in the results.

Moreover, the IRS may penalize both the organization and board members personally if it finds that decisions were made to provide what is deemed excessive total compensation (not just base pay). As a result, familiarity with evolving IRS rules and guidelines — terms such as "safe harbor" and "intermediate sanctions" — is essential in all tax-exempt nonprofit organizations. Although there may be little probability of running afoul of federal regulations in this area, especially in organizations with modest operating budgets, being ignorant of them is never a viable defense.

Consider adopting these good practices:

- At least every other year, obtain reliable comparable compensation and benefit data from peer organizations of comparable size and missions in order to benchmark the range of practices. The comparison group need not be only nonprofit organizations, but those data are most relevant for most organizations.
- Ensure every board member — not just those who might ask — knows the details of the chief executive's total compensation. Regardless of who negotiates the compensation package, *the majority or all* of the board's members should be comfortable with the decisions. In some organizations, the full board approves the appropriate committee's detailed recommendations concerning the chief executive's total

compensation package. In others, an executive committee formally approves the details of the final compensation, having been delegated this authority by the board in the bylaws or a separate standing policy. But the full board should always be informed about the process employed and the general outcomes of both the performance review and compensation decisions. It is a best practice for annual adjustments to the chief executive's compensation package to be approved by the governing board and its action *(not the details)* properly recorded in its minutes.

- Document in official records the details of how the performance and compensation reviews were conducted. Include such information as what comparative compensation data were used and the names of the board members who participated. In the event of an audit, this documentation will be required.
- Ensure that all compensation, including taxable benefits, appears on the IRS W-2 forms. Incidentally, basing part of total compensation on bonuses for meeting certain predetermined criteria — a commonplace practice in the for-profit sector — is permissible, although often controversial, in nonprofit organizations. Take great care if using bonuses; seek professional advice to ensure the organization does not inadvertently ignore evolving IRS rules.

For more on chief executive performance reviews and compensation practices, see *Legal Responsibilities of Nonprofit Boards* and *Structures and Practices of Nonprofit Boards,* Books 2 and 6 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. What is our policy for assessing the chief executive's performance? Does the employment agreement call for such a practice? By what general process and timetable?
2. Have we updated our policies and processes regarding performance assessment and compensation to reflect what we've learned through experience?
3. Who within the board is responsible for implementing board policy concerning performance reviews and compensation practices (if it is more than the board chair and other elected officers)?

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CHAPTER 4

ENSURE EFFECTIVE PLANNING

Through the planning process, the board and staff translate the organization's mission into objectives and goals to be used to focus resources and energy. These goals, which often require new resources, also become the benchmarks for assessing the organization's progress over time.

Although the chief executive is responsible for designing and conducting a process that provides, in effect, the organization's business plan, the chief executive and staff do not unilaterally determine the organization's strategic direction. The board is responsible for actively participating in and approving decisions that set and guide the organization's strategic direction.

The board's responsibility in this area is to

- insist that comprehensive organizational planning occurs
- participate in the strategic planning process
- assess the merits of the planning process and its results
- formally approve agreed-upon outcomes
- use the goals as a guide for budgeting and other priorities
- track the plan's implementation and the organization's progress, largely based on stated goals and objectives

Members of governing boards — who are, after all, part-time volunteers — often ask, "Where and how do we participate meaningfully and appropriately in the process?" The short answer is that board members are at their best when they ask good questions, confirm or support assumptions, ensure proper research, and offer ideas of their own about the organization's operating environment. This is most effectively done in board committees but a well-planned and facilitated board retreat often provides focus and unanimity.

There are nearly as many opinions about planning and how it should be done as there are different sizes and shapes and missions of organizations, for-profit and not-for-profit. In this chapter, we address fundamental, time-tested principles, rather than attempt to describe the myriad approaches to strategic planning. Remember that *the process* of planning is as important as its outcomes. Getting the process right adds value and thus justifies the time and expense involved. What is most important is that planning be done and that it be tailored to the organization's culture, the staff's competence, and the experience and wishes of the chief executive, who is mostly responsible for getting the job done.

Each organization should determine its own approach to planning, based on its needs and culture.

SEEING THE BIG PICTURE

First, board members should become involved extensively in any significant planning process so they are enthusiastic about helping to implement goals and priorities, acquire new resources, and much more. Their participation helps to ensure that the big picture — how the organization fits within its larger community of interest — is considered, within the context of key competitive and many other environmental factors.

Boards that fail with their staff leaders to honestly and comprehensively assess the threats and challenges that the organization faces within its operating environment — for example, its competition, obstacles to overcome, and major constraints on its financial sustainability — are driving blind.

Board members should add measurably to the planning process by bringing their experience, professional talent, and objectivity to it — by asking good questions, and by demonstrating that they take planning seriously. Above all, they should remember that they are on the board to serve their organization's overall best interests and purposes, rather than any one or two of its parts. Individual pet projects should not be advocated without discernment; this principle should also apply to individual staff members who may be tempted to lobby for their personal needs and convictions.

The board should stay focused on the big picture — the high-order levels of policy and strategy — not the details. In organizations with staff, it is a staff responsibility to implement and administer programs and other activities (the business of the enterprise); it is the board's responsibility to define the overall guidelines and policies and to ensure that they are followed.

Second, although some long-range forecasts can be made and opinions about them will vary, it is generally best not to plan for more than a three-to five-year period. The planning process itself ordinarily should be confined to 12 months (preferably fewer). Regular progress reports by the chief executive and others, including participating board members, will help to keep the board aware of what the organization is learning and considering as it reaches for consensus on goals and objectives.

ELEMENTS OF THE PLAN

Planning occurs at various levels within an organization depending on its size and complexity, the attitudes of the chief executive toward planning and how it should be done, and the staff's and board's levels of motivation. Organizations blessed with adequate resources should consider engaging an experienced consultant to assist with the process. An effective consultant brings objectivity, keeps the trains running on time, helps with the writing, facilitates discussions, mediates differences of opinion among participants, and brings experience and ideas of his or her own to the table.

Planning should engage constituents and the board to test assumptions about the quality and appropriateness of what the organization does currently and what it proposes to do. Overall, the plan and its results should provide a clear sense of strategic direction — aspirations that define how the organization can get there from here.

Depending on the special circumstances, mission, and purposes of the organization, most planning efforts will include some variation or combination of these elements:

- Statement of mission and purposes (reaffirmation or revision)
- Statistics, trends, and other research data about the environment in which the organization operates (likely internal and external circumstances)
- Needs to strengthen current programs and services (constituent input is especially important)
- Need for new programs and services (constituent input is especially important)
- Advocating reallocation of limited resources by eliminating weak or tired programs and activities to help finance new and opportunistic ones
- Membership development and retention strategies (if appropriate)
- Staffing (current and projected needs)
- Board of directors (membership, size, method of selection, board member performance assessment, meetings, committee structure, and other bylaw provisions)
- Financial projections (income, expenses, reserves, new revenue streams)

- Fundraising goals and strategies that set the stage for subsequently framing an explicit case statement (a case for support from individuals and other funders)
- Public education and relations strategies (How do we get our story out?)

For more on planning, see *The Nonprofit Board's Role in Mission, Planning, and Evaluation,* Book 5 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. Does every board meeting (apart from retreats) include at least one strategic, or big picture, issue on the agenda?
2. Is our current strategic plan based on realistic and comprehensive assumptions about the organization and its external environment? What considerations are missing?
3. How might changing demographics and other economic, social, and political trends affect a constituent, client, or membership base that provides a primary revenue stream?
4. What goal should the organization strive to achieve for financial reserves (for example, at least one-half of the operating budget)? Are there some potential revenue streams to consider?
5. Are new priorities clear and the proposed means of paying for them realistic? Which programs should be self-supporting? Which might be appropriately operated at a loss in order to fulfill the organization's mission?
6. What metrics do we use to monitor organizational effectiveness?

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CHAPTER 5

MONITOR AND STRENGTHEN PROGRAMS AND SERVICES

The board's fundamental responsibility begins with ensuring that current and proposed programs and services align with the organization's stated mission and purposes. Given limited dollars and unlimited demands on them, the board ultimately decides among competing priorities. What the organization does for its members, constituents, or clients determines its significance as a social institution, of course. Yet board members often complain that finance and fundraising, rather than strategic and programmatic issues, dominate their meeting agendas.

What the organization actually does, and how well it does it, should be at the heart of board curiosity. Board work should focus primarily on the organization's impact, as determined by matters such as the number of clients served, number of attendees at particular programs, the extent to which program participants achieve the desired results, revenues and expenditures for individual services, and changes in behaviors or conditions over the long term. Board members should ask the following:

- What data and information will help us assess our operational effectiveness, financial condition, and programmatic activity?
- What difference are we trying to make?
- How do we know whether we are making a difference or succeeding at our mission?

Because most volunteer, nonprofit, and tax-exempt organizations do not have board members who are program experts, professional service providers, or practitioners, they usually hire qualified staff to execute programs and gather such data. Aim to balance the board's responsibility to ensure quality, cost-effective programs and services with the staff's responsibility and ability to creatively initiate, conduct, and assess them.

At times, board and staff responsibilities and functions can become confused — particularly when board members of small organizations must, of necessity, volunteer extensively to conduct and manage programs. In particular, membership-based professional societies and trade associations often struggle with where to draw the line between staff and board functions because their board members are often practitioners in the field the organization serves. When board members' knowledge and work experience relate directly to what the organization does, ambiguity and tension may arise unless the board remains focused on its responsibility to align the organization's programs with its mission and purposes.

The board should periodically encourage the chief executive to retain a facilitator or consultant to conduct focus groups with representative constituents, members, or customers and report back on the findings. If client confidentiality must be maintained at all times, such as in human service agencies, consider using anonymous surveys. The users of programs and services ordinarily are the best source of advice and candor.

ASSESSING ORGANIZATIONAL ACTIVITIES

How does a board monitor and otherwise contribute to strengthening the organization's offerings, especially when a well-qualified staff is in place? For most boards, fulfilling this responsibility is always a work in progress. It includes

- periodically assessing the efficacy of programs and services (some boards have found it to be useful to establish an ad hoc committee, a task force, or third-party consultant to evaluate programs and services, especially user satisfaction with them)

- asking good questions about proposed programs and services, especially as they relate to the organization's unique mission and purposes
- studying both the cost-benefit ratio of major undertakings and user satisfaction data (hearing from users of certain programs and services) to facilitate an exchange of information and learning
- occasionally recommending or authorizing management to invite qualified third-party consultants to specifically study programs or services that may be causing concern

Specifically, every board member should know which of the organization's activities are truly "signature" and why. Which are the weakest or least consequential to the organization's mission and why? Which are net revenue producers? Which are not — and why? Are certain services necessary, even if they are not self-sustaining? Does the organization periodically conduct satisfaction surveys of members, constituents, or clients? Does staff provide reliable and useful information, including criteria that can help the board compare the organization's major undertakings from year to year?

By adding new programs and services without at least seriously exploring what should be discontinued, the ability to reallocate limited resources to fund new priorities is lost. It is important to recognize when some programs have outlived their usefulness.

Effective chief executives work with their boards to explore ideas, generate questions for meeting agendas, and identify the type of "dashboard indicators" preferred (assuming the organization has the adequate technology and staff to provide reliable data). These explicit benchmark data, agreed upon by the organization's staff and board, show at a glance how the organization is doing.

Usually provided quarterly or annually, with comparisons to the same timeframes from the previous year, these indicators or metrics provide information to board members in easily understandable presentations. They can take a variety of visual forms, such as bar graphs, trend lines, or comparative charts of percentages and ratios.

Finally, board members should guard against staff or board member defensiveness about certain “sacred cows,” whether those are programs, services, publications, events, or even certain staff members. Change is difficult to embrace, but the competitive environment, limited resources, limited staff, and new opportunities should encourage everyone to face the reality that even proven and popular programs or services can at least be improved. Reallocation of resources is a periodic necessity.

For more on the board’s responsibility to monitor major programs and other organizational endeavors, see *The Nonprofit Board’s Role in Mission, Planning, and Evaluation,* Book 5 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. What are our "signature" programs and services? Are any peripheral to the organization's primary purposes? Should any be discontinued or modified?
2. What strategic indicators or criteria will best help us monitor the organization's effectiveness, efficiencies, and financial condition?
3. What mechanisms do we have in place to periodically assess the impact of what we do? How do we use the information to inform the design of programs and services?
4. What do we know about who participates in each of our major programs and services? Are participation trends going in the right direction (numbers and categories of people served)?
5. What are the cost-benefit ratios for each of the organization's most substantial programs and services?
6. How much of the annual budget is devoted to programs and services?
7. Have we made the necessary investments in our infrastructure to effectively and efficiently support our major or signature programs?

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CHAPTER 6

ENSURE ADEQUATE FINANCIAL RESOURCES

Obviously, an organization can be effective only if it has enough financial resources to meet its purposes. Although much can and should be expected of the chief executive and management on this score, the board is chiefly responsible for ensuring it has the funds it needs and that it does not spend beyond its means.

For most nonprofit organizations, balancing the budget has two basic dimensions: finding dependable revenue streams (normal earned revenue) and raising private support (gifts and grants). Every organization needs to decide for itself what constitutes an ideal balance of revenue streams in light of what is possible and desirable to ensure sustainability through good and bad times. This is a key board responsibility involving strategy and priority-setting appropriate to where the organization is and needs to go.

CONTRIBUTED REVENUE

Most nonprofits engage in fundraising to attract private contributions (which can include gifts and grants from individuals, private foundations, and corporations). In those organizations, the board and its members should work in partnership with the director of development (if such a position exists). Specifically, the board should participate in assessing fundraising targets and goals and have clear obligations regarding personal philanthropy. In addition to being able to report 100 percent board participation to potential and current supporters, board members are better fundraisers when they set their own good example. After all, if board members don't substantially support their own organization, why should anyone else?

When appropriate, the board should set an annual goal for their members' giving — that is, an aggregate dollar goal, in addition to expecting 100 percent participation. But total dollars matter too. They should ask the development staff to provide *quarterly reports* specifically on *total* board member giving as part of fundraising reports from all other sources, with comparisons for the same quarter in the preceding fiscal year. The net effect is that these boards challenge themselves to raise their own bar from one year to the next — a sound practice for all boards.

The board should guard against any tendency to behave as if its development committee alone bears the responsibility for raising funds. Resource development, including fundraising, is a function of the full board. The development committee is simply the board's agent to help oversee the work of all board members, the chief executive, and the development staff. Ensure that the organization has the necessary infrastructure — including adequate staffing and budgeting — to attract and increase gift support. Also, remember that it takes money to raise money.

Organizations may have the benefit of being able to secure foundation grants for special programs and projects — all of which usually have rather precise periodic reporting requirements to account for expended funds and other purposes. Compliance with such expectations from funding sources is a staff rather than board responsibility, except for the obvious need for the board to be satisfied that this is done in a timely and appropriate manner. At the same time, however, it is entirely appropriate — and desirable — for board members to help open doors through their personal and professional networks, when they can, as an important part of fundraising.

In many organizations, the chief executive serves as the chief fundraiser, but large organizations typically have a development staff as well. In any size organization, however, the chief executive's and development staff's effectiveness is linked to board member participation. Board members should be ready to assist staff by

- setting a strong example by making a personal gift to the annual giving campaign and to any special fundraising campaigns
- identifying potential donors (individuals, corporations, foundations)
- responding to requests from staff for help soliciting support
- thanking donors and maintaining cordial relationships with them. The most likely person or group to support the organization again is one that has done so in the past.

For special project or program needs — such as securing or renovating a facility or launching a pilot program — a fundraising "case statement" usually emerges from the planning process for review and approval by the board. It should clearly explain why the organization needs money and how it will use it.

EARNED REVENUE

Many organizations have opportunities to bring in support through earned revenue. This may include membership dues, income from the sale of services, program registrations, or other program-related fee-for-service offerings. These revenues are usually a powerful way to support the organization's work, and are usually much more reliable than other types of revenue.

Note that these types of revenue are different from revenue sources that are unrelated to the organization's mission or programs. Nonprofit organizations are indeed allowed to have *unrelated income*, but those revenues may be subject to an unrelated business income tax, commonly referred to as UBIT. Boards should be aware of those distinctions to ensure that they are properly handling any associated tax liabilities.

Relying on just one or two revenue sources to generate the majority of the organization's income can be risky — what would happen, for instance, if the number of dues-paying members dropped precipitously? The board should be willing to support or approve the creation of appropriate new products, services, or activities that not only have the potential for net income growth but also are consistent with the organization's purposes.

Such new initiatives may call for a more entrepreneurial approach to generating income — such as establishing a for-profit subsidiary, creating corporate sponsorship opportunities, forming a limited liability corporation (LLC), or licensing the organization's intellectual property. They also may lead to alliances or formal partnerships with corporations, government agencies, or other nonprofit organizations and sharing the financial risks and rewards of the joint undertaking.

GOVERNMENT SUPPORT

According to data from the Urban Institute, a third of all revenues received by public charities in the nation come from government sources, whether in the form of grants (8.3%) or fees-for-services provided (23.9%)[1]. The nature of these two types of support are very different; they both involve an important relationship between the organization and a government entity, and boards must understand that these revenues can fluctuate — or even be eliminated completely — based on changes in policy, the political environment, or austerity budgeting. Remember this version of a well-known adage: What Caesar funds, Caesar can stop funding.

There are two obvious conclusions here: The first is the importance of having contingency plans including contingency budgets and alternative funding strategies that address any major change in government support, as you would with any significant funding source. The second conclusion is the need to actively engage with policy-makers to ensure that they understand the impact of your organization's work and public support of it. This means accepting the board's (read "board member") responsibility of actively,

1 The Nonprofit Sector in Brief: Public Charities, Giving and Volunteering, 2012.

consistently, intelligently, and strategically advocating for the organization's mission.

For more on the board's role in advocacy and ambassadorship, see Chapter 10: Enhance the Organization's Public Standing.

For more on the board's fundraising responsibilities, see *Fundraising Responsibilities of Nonprofit Boards,* Book 4 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. Do we need to develop more diverse sources of net revenue from programs, services, publications, membership, and the like, providing they are appropriate to our mission?
2. What is our contingency plan in the event a major source of revenue or contributor suddenly disappears?
3. What is the optimal percentage of earned income, private contributions, membership dues, and other sources of income that we wish to achieve to build a diverse and stable revenue stream?
4. What are our expectations for board members' involvement in fundraising? Do we clearly articulate this expectation when they are cultivated for nomination?
5. Do board members help to identify and cultivate possible funders and major donors?
6. Is it enough for the board to set an annual goal of 100 percent participation for board member giving to motivate personal philanthropy? High-performing boards also set an annual dollar goal for themselves and ask for quarterly reports on aggregate amounts toward their goal as part of fundraising reports.

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CHAPTER 7

PROTECT ASSETS AND PROVIDE FINANCIAL OVERSIGHT

The word "fiduciary" comes up frequently in conversations about board responsibilities (as in "Our board must meet its fiduciary responsibilities!"). Indeed, safeguarding organizational assets, and holding them "in trust" on behalf of others, is one of the most important board functions.

According to BoardSource's governance survey, *Leading with Intent: A National Index of Nonprofit Board Practices 2015*, financial oversight is rated the second strongest area of board performance, behind understanding the mission. Yet financial issues weigh heavily on the minds of nonprofit leaders who must grapple with complicated accounting practices and fiscal sustainability.

Fiduciary responsibility includes a constellation of concepts. It requires the board, working in concert with the chief executive, to

- review and approve how the organization budgets, spends, and generates income
- establish and follow monetary policies that balance short- and long-term needs
- verify that the organization's financial systems and practices meet accepted standards
- ensure that the organization has adequate operational reserves for rainy days and to take advantage of unexpected opportunities

- safeguard the organization's reputation by making sure it operates in a transparent, accountable manner and that even the appearance of conflict of interest on the part of board members and officers is avoided
- ensure the organization is not subjected to unnecessary risk

MONITORING MONEY MANAGEMENT

Approving an annual budget and tracking revenues and expenses against the approved budget, ideally quarterly, is a full board responsibility. This helps the board determine the organization's current financial position and how that compares to a desired or anticipated financial position. A quarterly Statement of Financial Position (formerly known as "the balance sheet") should present the organization's assets (what it owns), liabilities (what it owes), and net assets (the difference between the two). The board should also routinely receive reliable financial statements and possibly cash-flow statements, in accordance with Generally Accepted Accounting Principles (GAAP).

Ideally, quarterly, if not monthly, reports should compare numbers for the same time period in the preceding fiscal year. The board should raise questions about any large differences that the chief executive (or other staff responsible for the reports) doesn't explain.

The board is responsible for conscientious oversight of the management of organization resources. This oversight includes ensuring the organization has (and follows) cash-management controls and monitoring the performance of the chief financial officer. Although the chief financial officer reports to the chief executive, not to the board, the board must be satisfied with this person's competence and will inevitably and appropriately have opinions regarding it. Board members who serve on the finance committee often have helpful experience with such matters; i.e., potentially helpful suggestions and recommendations to make directly to the responsible officer, or privately to the chief executive when appropriate.

The board's other money-related responsibilities include

- ensuring that adequate liability insurance provides needed coverage for risk exposures
- monitoring the distribution of authority for financial decisions between the board and staff
- monitoring the organization's reserve funds (the amount of resources currently available) and any endowments (established funds that provide income)
- approving investment policy
- overseeing investment performance

To ensure objectivity and to gain an outside perspective on managing the organization's portfolio, consider engaging a professional investment advisor on a contractual basis. Even if several board members have experience in the investment area, they may not have the time or the expertise to advise the organization. Besides, it is never a good practice for board members to personally manage investments for their organization. Board members with relevant expertise most appropriately help the board to set investment policy guidelines and to monitor investment advisor performance against them with appropriate market benchmarks.

PROVIDING AUDIT OVERSIGHT

The main purpose of an independently conducted audit is to verify that staff members are following Generally Accepted Accounting Practices and accurately report the organization's financial condition. Therefore, the annual audit is a primary internal instrument to help the board of directors to meet its fiduciary responsibilities.

Increasingly, however, the audit has also become an external document for earning and keeping the public's trust. Given the increased scrutiny of all nonprofit organizations, the watchword of the day is transparency — especially to disclose revenue sources and how that revenue is expended.

To ensure that the board and staff are being both accountable and transparent, many nonprofit organizations — especially those with sizeable operating budgets and staffs — appoint an audit committee. BoardSource's *Leading with Intent: A National Index of Nonprofit Board Practices 2015* reports that 47 percent of responding organizations have a combined finance/audit committee and 24 percent have a stand-alone audit committee. (Avoiding overlap in the memberships of the finance and audit committees is considered to be a highly desirable best practice.)

The remaining 29 percent that do not have either committee may simply be too small to justify independent audits of their finances by a certified CPA. Organizations in that situation must make certain that, at a minimum, they have at least one experienced accountant or finance-savvy person serving on the board to ensure that financial management adheres to proper policies and practices.

Before the audit process begins, the audit committee should make specific requests of the auditor about areas of special interest or concern — a specific project, staff travel expense reports, or use of organization credit cards, for example. In addition, expect auditors to suggest improvements in accounting and related practices, usually in the form of a "management letter" addressed to the board. The committee may also have specific questions or concerns that the auditor should address in the management letter.

Other responsibilities of the audit committee include

- recommending the annual appointment or reappointment of an auditor to the full board (remember that periodically changing auditing firms and/or the lead auditor on a sensible schedule, such as every five or so years, can bring fresh insights and helpful suggestions through new sets of eyes)
- reviewing the auditor's performance and fee
- reviewing the annual IRS Form 990 for completeness, accuracy, and on-time filing and providing assurances of compliance to the full board

All board members should receive the audit report prior to the meeting at which it is discussed and accepted — and formally accept it then or when final numbers are provided. Even if the board does not have concerns about the organization's financial management and reporting systems, its appropriate committee should meet privately with the auditor, without the chief executive or other staff members present, to review the results of the audit and to be able to ask good questions about the audit process and results.

Problems may arise when organizations don't change at least the principal or lead auditor within the same auditing firm every few years or retain the same firm for too long a period. Avoid running the risk that relationships can become too cozy between auditors and staff or missing opportunities to benefit from having different perspectives.

FINANCE COMMITTEE RESPONSIBILITIES

Depending on many situational factors — such as whether the board (and the organization itself) is relatively small or quite large — the board usually looks to three committees to help it with its fiduciary responsibilities.

- The finance/budget committee takes the lead in monitoring how revenue and expenses track against the approved budget.
- The audit committee (or audit subcommittee of the finance/budget committee in small organizations) oversees the annual review of the organization's financial systems and reporting practices and is often asked to monitor adherence to the organization's conflict-of-interest policy.
- The investment committee (or investment subcommittee of the finance/budget committee in small organizations) oversees performance of the organization's investments and recommends policies for board approval. Those organizations with very significant reserve or endowment assets ordinarily have a stand-alone committee to recommend and monitor investment policy, asset allocations, and performance benchmarks.

Note that these committees do not substitute for oversight by the entire board. Fiduciary responsibilities are myriad, complex, and very much at the heart of board work, no matter the organization's size and operational complexity. There is much to do, so it helps to have these specialized committees, as well as several board members who have financial management, accounting, or other business acumen. Regardless, all board members share responsibility to safeguard the organization's assets.

In general, board members are legally held accountable to the principle of the "Prudent Person Rule." This essentially means they are expected to perform within the bounds of what any reasonably intelligent and prudent person would be expected to do (or not do) in managing or investing his or her own funds in similar circumstances. This is not an unreasonable expectation and should not cause us to lose sleep at night. But it does require reasonable due diligence on our part as board members by asking the right questions at the right time.

To remain in tune with best practices, members of the board and its key committees should read and discuss some of the publications available (see Suggested Resources for recommendations). There are times when the board and the chief executive should reach out for professional assistance from consultants to meet the need for reliable and dependable data, information, or advice.

For more on the board's role in providing responsible financial oversight, see *Financial Responsibilities of Nonprofit Boards,* Book 3 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. Do we currently have an independent CPA or firm conduct an annual audit? If not, has the time come?
2. Do we have at least a few board members who bring financial management, accounting, or other business expertise?
3. Are our various financial statements and reports reliable, timely, and easy to understand?
4. Do we have short- and long-term strategies to address the organization's financial condition and ambition?
5. What is our current level of reserves? Is it appropriate for the organization's current and future needs?

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CHAPTER 8

BUILD A COMPETENT BOARD

How board members are appointed or elected varies enormously in different types of organizations, but three principles apply to most nonprofit boards.

- **Every organization's governing board will only be as effective as its individual members.** Who is on the board matters, of course. Personal attributes such as commitment to the organization, professional skills, philanthropic spirit, and experience with complex organizations are appropriate to all governing boards. Other characteristics or areas of expertise may be more or less relevant, depending on the type of organization and their current strategic goals. For example, an organization that is preparing for a building project may seek a board member with real estate development experience, or an organization that works on health policy might seek board members who are doctors, nurses, and other health professionals. The board's membership composition matters if it is to be seen by others as a responsible and civic-minded enterprise in the service of all people. Thus one question a board and chief executive need to answer is: How should we define the ideal mix and number of professional skills, backgrounds and experience, demographics, and other characteristics we should seek in our board members?
- **Members of governing boards will respond only to the level of expectation accepted by them and persistently articulated by the organization and its leaders.** It follows that clarifying expectations for individual board members before they are invited to stand for nomination and accept

directorship can greatly influence how energetic and effective they are likely to be. Board members should do their best to help scout for exciting prospective *candidates* for nominations for election or appointment to the board.

- **A well-balanced and functioning board depends on the sustained diligence of its governance committee.** In earlier times, this committee was typically named the "nominating" committee, and its charge was largely limited to identifying and nominating candidates. As organizations have since evolved and become more sophisticated in their structures and performance, however, this committee has assumed many more, and more significant, responsibilities. Accordingly, its name has changed to the governance committee, committee on board leadership, or committee on directors (trustees), for example. In past decades, it was also common to ask board members to serve on the nominating committee if they did not quite "fit" elsewhere in committee structures. Today, this committee's expanded charter and responsibilities requires that only the most highly respected veteran directors both chair and serve on it.

RESPONSIBILITIES OF THE GOVERNANCE COMMITTEE (OR COMMITTEE ON BOARD LEADERSHIP)

This committee ensures the governing board's long-term development as a high-performing board. It should have a clear and comprehensive mandate from the board (ideally, as a bylaw provision) to enable it to do its work with energy and conviction; its members should consist of those who have demonstrated their ability and sound judgment as good examples for their colleagues on the board.

Even in organizations that do not have self-perpetuating boards, this committee serves to educate those who are vested with the authority to elect board members by informing them of what the board needs in its composition. When board bylaws appropriately provide for the board to elect its own officers and new or continuing board members, it is the governance committee that takes the lead in determining the slate of candidates for consideration.

Four elements of the committee's work on the board's behalf relate especially to developing and sustaining effective board performance:

1. **Clarifying expectations for all board members.** Appendix I provides an illustrative list of individual board member responsibilities for boards to adapt, fully discuss, and adopt. The governance committee should ensure that such a list is provided to all potential nominees so they know that the organization takes board service seriously. Furthermore, the committee should rely on a formally board-approved "Statement of Director Commitment" to provide the standards or criteria for assessing the performance of those who are eligible for renomination to new terms.

2. **Periodically assessing board member performance (as well as the board itself).** A sample approach to board member self-assessment appears in Appendix II. This can be adapted by the governance committee for adoption by the board. The committee chair should ordinarily share its completed copies with the committee's members, along with other available information, such as meeting attendance records, giving records, and other evidence of commitment to the organization and to board service. The assessment is intended to be part of a comprehensive and candid discussion about each board member before the committee decides on the appropriateness of renomination.

   The governance committee should also ensure that *the board* sets aside time to engage in a process of introspection — to explore how well it is functioning. At least every two years, increasing numbers of boards schedule a retreat or workshop devoted to this purpose. This focus should not be confused with annual board retreats for strategic planning or other in-service education needs. Board self-assessment, provided the process is well-planned and conducted, can also help to socialize board members. A third-party facilitator with experience and credibility can ensure objectivity and often more satisfying results.

3. **Orienting new board members effectively.** The governance committee should offer new board members (and veteran members who wish a refresher) a two-part orientation program rather than attempting to do everything in one session. Devote one part to the responsibilities of board service, the board's "corporate" responsibilities, the board's culture and style of operating, how the board is organized to do its work (including committee structure), an overview of bylaw provisions, the board's members, relationships with the staff and key constituencies, and the like. Focus the second session on the organization: its mission, history, and major achievements; current priorities and needs; staff organization; facilities, finances, programs, services, and so on. Finally, always invite participants to offer suggestions for program improvement.
4. **Ensuring opportunities for in-service education.** It is increasingly commonplace that the governance committee (by whatever name) help the board chair and chief executive to plan periodic opportunities at regular board meetings, or annual or biennial board retreats, to focus conversation on one or another board responsibility. Examples include mini-seminars on board member participation in fundraising, one-hour plenary sessions with occasional guest speakers to engage the board in discussion of key trends and new developments in the organization's field of interest, or board self-assessment activities. Such needs and possibilities are without limit. The committee is the board's agent to ensure there are regular, well-conceived, timely activities focused on board development and board member education.

High-performing boards take seriously regular reviews of board member competencies, skills, and performance inherent to their definition of what constitutes a balanced composition and a dynamic, effective organization with changing needs. Those that do not are positioned to miss opportunities to move their boards from good to great, to convert a group of high-achieving and successful *individuals* to a truly synergistic board.

TERM LIMITS

A growing number of organizations limit the number of consecutive terms board members can serve — sometimes with a one-year hiatus after some minimum period of service before they may be asked to accept renomination. (BoardSource recommends the board should adopt term limits.) Regular turnover among board members encourages the board to pay attention to its composition, helps to avoid stagnation, offers the opportunity to expand the board's network, and provides a respectful and efficient method for removing unproductive members. According to *Leading With Intent 2015*, seventy-one percent of nonprofit boards now have term limits for board members; the most common are two consecutive three-year terms. Term limits do not prevent valuable members from remaining in the service of the organization or the board in another capacity. An exception is the family foundation that may have a limited pool of qualified and interested candidates.

The implicit goal is to ensure reasonable turnover in board membership while maintaining adequate continuity with veteran board members. Term limits can help an organization strike a balance between experienced board members with historical perspective and knowledge of the organization and newcomers with energy, fresh ideas, and connections. Term limits also encourage more opportunities for leadership development within the board's membership.

Proposals to adopt term limits continue to encounter resistance, even when they provide for renewal of terms after a one-year hiatus or a “grandfather” exception for veteran board members in newly adopted bylaws. But many boards have found term limits to be helpful to avoid continuing directors beyond their most productive years. For most of us who have volunteered for service on one or another board, we know there is a season to join a nonprofit board and a season to let it go.

Although it is still a common but controversial practice in for-profit and investor-owned organization governance for chief executives to serve concurrently as chairs of their boards, it is not done in nonprofit organizations for obvious good reasons not elaborated here. And with regard to the volunteer board chair, it is a highly desirable provision in bylaws to suggest a flexible term in office; that is, she or he should neither serve for too little time nor too long. In this regard, a recommended provision and guideline in bylaws for consideration is the following: “The board chair shall serve for renewable one-year terms. He or she shall *ordinarily* serve for at least two, but not more than five, consecutive years.” (Indeed, use of the word “ordinarily” is very useful in certain other bylaw provisions as well.)

Whether or not the organization has term limits, the governance committee should set high standards for board members, assess their performance periodically, and consistently apply board policies that expect good meeting attendance and other evidence of commitment to the organization. Only by avoiding “dysfunctional politeness” can organizations determine whether board members who are eligible for another term truly deserve renomination. The organization’s needs should always be the committee’s major preoccupation. They should always have priority.

For more on board member selection, orientation, and performance assessment, see *Structures and Practices of Nonprofit Boards,* Book 6 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. What constitutes a balanced board for our organization in terms of size and member attributes, demographic considerations, capacity for philanthropy, and so on?
2. Have we articulated and communicated a comprehensive list of responsibilities and expectations for board members?
3. Do our most effective and highly respected board members serve on the governance committee?
4. Do we periodically assess both the board and board members who are eligible for renomination?
5. Do we have term limits for our board members? If not, should we?
6. Do we have a set of bylaws that reflect current best practices in board organization and comportment, including a contemporary and comprehensive list of board responsibilities, good charters (especially for the executive committee and governance committee), and a clear statement of the specific authority reserved for the board only?

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CHAPTER 9

ENSURE LEGAL AND ETHICAL INTEGRITY

Because the board is ultimately responsible for ensuring adherence to legal standards and ethical norms, its members should collectively exhibit diligence, commitment, and vigilance to keep their house in order. This board responsibility, like many others, begins with hiring and retaining a chief executive whose moral compass and integrity are above reproach. The organization's reputation and public standing require everyone to take three watchwords seriously: compliance, transparency, and accountability.

COMPLIANCE

The term "compliance" is simply shorthand for the regulatory and legal requirements imposed by government and regulatory bodies at local, state, and federal levels that are considered part of a board's fiduciary responsibility.

A model conflict-of-interest policy and disclosure requirement may look great on paper, but its adoption is meaningless and inconsequential or worse unless the board carefully monitors the policy and consistently adheres to it.

Some failures in the governance and management of tax-exempt organizations have captured the public's, state attorneys' general, and the IRS's attention, and even occasionally that of the U.S. Senate Finance Committee. One of the most recognized pieces of legislation, the Sarbanes-Oxley Act, grew out of high-profile failures of corporate board oversight and dysfunctional accounting and auditing standards in the for-profit sector of the economy. Although

Sarbanes-Oxley primarily affects publicly traded corporations and auditing firms, it has helpfully caused nonprofits to look at their own standards and practices.

The net effect of all this attention has been a call for boards to

- ensure the organization adheres to local, state, and federal laws and regulations that apply to nonprofit organizations, such as filing IRS Form 990 and other documents on a timely basis (noncompliance can have severe financial consequences)
- ensure the organization registers with appropriate state agencies as may be required before beginning organized fundraising campaigns
- act in accordance with the provisions of the organization's bylaws and articles of incorporation, amending them when necessary

TRANSPARENCY

Part of the board's fiduciary responsibilities (see Chapter 7), transparency refers especially to the need to provide accurate information about an organization's revenue and how it is expended. Nonprofit organizations are expected to routinely and openly share more, and more complete, information to the media and the public about their financial condition, major activities, and staff compensation. A charitable organization should make information about its operations, including its governance, finances, programs, and activities, widely available to the public. Charitable organizations also should consider making information available on the methods they use to evaluate the outcomes of their work and sharing the results of those evaluations. Specifically, they should

- document how executive compensation is linked to performance
- keep records about what other peer and other similar-sized organizations pay their top staff officers
- have clear policies and procedures to safeguard against premature destruction of documents

- establish policies regarding how staff should handle gifts from vendors and suppliers and obtain competitive bids for products and services
- ensure the organization publishes annual reports that include financial data (some organizations include their entire audit report), key activities, and achievements
- ensure the organization responds willingly to all reasonable requests for information from individuals and organizations, including the media

Board members should be familiar with the wide range of questions asked on Form 990, which is a public document and available to any citizen who requests it (typically the data are at least one and more often two years old). The form has several attached "schedules" that require details about the organization's compensation and governance practices — all part of the government's expectations regarding transparency.

Form 990 also asks if the board reviewed the form *before* it was filed. It is important that all boards do so. Then consider posting it on your organization's website as a proactive statement of transparency.

Proactive transparency, however, is not restricted to the organization's Form 990 or its audited financial statements. It often relates to other aspects of decision making, such as ensuring that bids are part of major contracts or that available positions are open to all interested candidates. The purpose is to eliminate inside dealing and avoid conflicts of interest.

Do not confuse transparency with sharing information that is appropriately confidential. Transparency is the only way to earn the trust of supporters — as well as the general public. By adopting a culture of openness for the organization, the board sends a message of honesty, integrity, and a willingness to function above compliance — to do more than the minimum required by the law. Placing your bylaws and annual reports on your website, responding to reasonable requests for information from members, the media, and other interested parties can go a long way to sustain the public trust.

ACCOUNTABILITY

Although the board sets and periodically assesses the adequacy of major organizational policy, accountability measures ordinarily and appropriately fall to management. But the board needs to ensure the organization

- adopts a code of conduct or ethical standards for board members and officers
- defines what constitutes possible conflicts of interest, establishes procedures to deal with real or possible conflicts, and annually discloses and resolves any such possible conflicts involving board members or officers
- implements the organization's whistleblower policy, which should include procedures for how and to whom to report allegations of wrongdoing
- looks at annual board member and officer disclosure statements and acts on them through an appropriate board committee, as required by established policy
- keeps detailed records of any lobbying expenditures and activities
- maintains official records for the time periods required by law
- develops and maintains up-to-date personnel policies and procedures (including staff grievance protocols)
- conducts annual audits of all revenues, assets, expenditures, and liabilities
- publishes and widely distributes annual reports that detail the organization's mission, programs, achievements, board members, and finances

Laws and regulations, IRS requirements, legislative committee inquiries, accrediting organization standards, charity watchdog group inquiries, attorneys general, and umbrella national associations serving nonprofits are likely to continue calling for even more compliance, transparency, and accountability. The most effectively managed and governed and highly respected organizations exceed, rather than meet, minimal standards and expectations.

For more on the legal and ethical responsibilities, see *Legal Responsibilities of Nonprofit Boards,* Book 2 in the BoardSource Governance Series.

QUESTIONS THE BOARD SHOULD ASK

1. How can we keep up with the changing laws and regulations that affect our organization?
2. Are we forthcoming with the answers when asked how we make decisions, establish policies, and set strategic priorities?
3. When appropriate, do we adequately clarify who is ultimately responsible for implementing our policies when they are adopted?
4. Are we doing an adequate job of educating all board members about the board's legal and fiduciary responsibilities?

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CHAPTER 10

ENHANCE THE ORGANIZATION'S PUBLIC STANDING

Board members serve as a link between the organization and its members, stakeholders, constituents, and clients. They should think of themselves as the organization's ambassadors and advocates — hopefully even long after they leave their board memberships. Together with management, the board's challenge is how to strategically communicate the organization's story and aspirations while contributing to a healthy and accurate public image.

ADVOCATING FOR YOUR MISSION

Advocacy within the nonprofit sector can be broadly defined this way: Any behavior or action that speaks in support of, recommends, argues for, or otherwise defends or pleads for a cause, mission, or organization that benefits others. This is about more than the very good practice of "getting our story out." Although it is certainly that, it's more substantially about

- understanding the way that public policy impacts your organization's programs and constituents, and your ability to fulfill your mission
- monitoring public policy proposals at the local, state, and federal levels that could advance (or harm) your mission
- identifying key individuals within government who should be systematically and strategically kept informed about your organization's good work and effectiveness, *on a personal basis,*

by those board members most appropriate to take the lead by reason of their personality, high standing in the community, or career position

- connecting with coalitions of other organizations with similar missions and values to combine energy through joint strategy and effort
- inviting potentially influential colleagues from supporting entities into the organization to witness for themselves how government support has made a difference

While lobbying is advocacy, not all advocacy is politicking. And neither advocacy or lobbying are electoral politics, which is expressly forbidden for most types of nonprofits, including all 501(c)(3) organizations. These distinctions are very important for board members to understand. For more on the legal guidelines for nonprofit advocacy, visit www.standforyourmission.org.

While advocacy as an organizational strategy pertains to the *full board*, it is *individual board members* whose voices and initiatives matter the most. Influencing thought leaders and those in positions of authority who make decisions is accomplished most successfully by and through individuals who clearly have nothing to gain personally. The voice of the unpaid, volunteer board member, acting or speaking out of altruism and passion for a worthy cause, is potentially much more influential than the highest paid lobbyist. Never underestimate the impact that a volunteer board member has on individual decision-makers when he or she (or they) make time to accompany key staff to make personal calls on government officials.

Advocacy of mission is directly tied to the board's and its members' responsibility to be philanthropic and to help meet the fundraising needs of the organization. They go hand-in-hand, of course. When asking others to give, the most effective board member is always the one who has himself or herself given generously. Such generous people are nearly always known by their fellow board members, and within the larger community, when they make the organization they serve their top, or one of their top, philanthropic priorities.

But, in addition to your personal generosity with time and financial support, what else can you do to advocate for your organization?

- Identify individuals and organizations that can be partners in advancing your organization's cause and mission (e.g., money, influence, credibility, expertise, in-kind services). Help make the case to them with your chief executive.
- Accept invitations by your chief executive or other officers to call on individuals or organizations that others have identified as potential partners.
- Sponsor occasional gatherings of potentially important individuals at your home or club with an appropriate program of some kind (e.g., special announcement of a major new initiative, fundraiser, town hall discussion of a key policy issue, introduction of new chief executive to the community).

For more on the board's role in advocating for your mission, visit www.standforyourmission.org.

COMMUNICATING WITH THE PUBLIC

Good communication plans are an important part of organizational planning and strategy. When asked what the organization is and does, all board members should have an elevator speech ready — i.e., an interesting and compelling explanation, delivered in less than a minute, about the organization's mission and purposes. There is no substitute for enthusiastic, even passionate, board members who always manage to say something spontaneous and wonderful about the organization in their conversations with friends and colleagues.

Elements of a comprehensive public education effort to enhance awareness of the organization's value include

- clearly articulated achievements, presented in comprehensive annual reports and press releases
- contributions to the public good communicated regularly to community and government leaders
- explanations of how gifts and grants and other revenue sources are accounted for and allocated
- remarks by board members to civic and community groups with whom they have influence

Periodically ask colleague board members to share their elevator speeches. Board members can freshen up and improve their pithy speeches by learning from one another. Practice does make perfect. We are, each and every one, advocates and ambassadors at all times — or should be.

Board members should also remember that whatever they utter about the organization carries great weight, whether intended or not. Thus confidential information must be kept that way, even with close friends and relatives.

Communications is a two-way street. Constituents, members, and clients are invaluable resources who help to bring useful information to the organization. The executive staff and board leaders should welcome feedback, concerns, and suggestions for improving what they do. A healthy organization is always in touch; its board members are vital links to the larger community it serves.

FACING THE MEDIA

Conventional wisdom asserts that the chief executive ordinarily represents and speaks for the organization while the board chair represents and speaks for the board and its policies. But on certain issues and under certain circumstances, it may be appropriate for the board chair to speak for the organization and serve as point person with the media. And there are occasions and matters that call for both leaders to do so together.

Large, complex organizations with sizeable staffs and divisions of labor often designate a staff member to field media inquiries, prepare press releases about the organization's activities, and even draft speeches for the chief executive. Even then, board members may be called upon to meet with elected officials, testify before legislatures, court foundation program officers, speak to community groups, and represent the organization at national forums. Some organizations have found it useful to invest in expertise from public relations firms to teach basic dos and don'ts to board members, including how to do interviews with journalists, handle unsolicited phone calls from the media, deal with the "ambush interview" on a recent unpleasant happening, and communicate the organization's story effectively, for example.

Especially for controversial issues, the board and staff should clarify in advance *who* is responsible for *what* to avoid confusion and miscommunication. In general, board members should refer media inquiries to the board chair, the chief executive, or another designated individual — especially if the issue involves staff members or volunteers connected with the organization. A consistent message is essential.

Board leaders should guard against the occasionally overzealous and well-intentioned board member who may assume unilateral initiative without clearance. The board's leaders, rather than the chief executive — who, after all, works for the board — should help all board members to exercise restraint and to avoid temptation to offer personal or "off the record" comments on sometimes very delicate matters.

Enhancing the organization's public standing is a direct consequence of earning the public's trust. By doing the right things and doing things right (see Chapter 9), the organization will build and maintain both its reputation and public support. But remember, there is no substitute for you personally carrying the flag for your organization at all times; never miss opportunities to advocate for the needs of your organization, to be an ambassador to represent it within your social and professional circles, but also to *make opportunities.* These are among the marks of truly conscientious, committed board members.

QUESTIONS THE BOARD SHOULD ASK

1. Have we had a discussion at a board meeting recently about how we can enhance the effectiveness of our collective advocacy as an organization — as a board of directors?

2. Can we say with conviction that our board's culture makes personal advocacy of our mission and purposes an important expectation of board service?

3. Do we make time for discussion of our systematic advocacy strategies at board meetings, including the need to stay in touch with our funders about how their investments are serving the public good?

4. Are we monitoring public policy proposals in state or federal government circles that we should support, or be concerned about, perhaps with sister organizations that have similar missions?

5. Does the staff periodically ask or encourage us to identify individuals or organizations where we have influence to advocate for our enterprise?

6. What is the record of our board members in taking initiative as advocates or ambassadors to advance our organization and its mission?

7. Who speaks for our organization? On what kinds of matters?

8. Do we have a communication plan for our organization?

9. What practices do we have in place to ensure that both the board and its members are attuned to the needs of our stakeholders?

10. What are our guidelines for board members with regard to responding to calls from the media on potentially controversial issues?

11. What key talking points do we wish to consistently convey to friends, colleagues, or acquaintances about our organization? Do we create opportunities to do that?

CONCLUSION

TOWARD A BETTER BOARD

Serving as a director of a nonprofit organization continues to be the crown jewel of voluntary service in American society. In our competitive economy and culture, board membership represents a mark of real achievement and success. But with this distinction and privilege come some large responsibilities.

TEN THINGS TO REMEMBER

The 10 basic responsibilities may seem daunting at first blush, but fulfilling them will bring genuine personal satisfaction, enjoyment, and new knowledge. Service on a nonprofit board can be an enormously rewarding experience.

As you begin or continue your board service, these closing reminders may be useful.

1. There is a time to join the board of a worthwhile organization that accomplishes good things — and a time to go. Believe in the work of your organization and sustain your motivation and commitment. After you've done your best, made your mark and contribution, it may be time to pursue other volunteer endeavors.

2. Remember this old saying about board service: "Keep our noses in and fingers out." Except in newly established and the smallest of organizations where board members may have to wear two hats as both volunteers and staff, board members should not direct staff members, programs, or services. Individual board members have no legal authority; that rests only with the board as a whole.

3. Chief executives need an occasional pat on the back. They're human, too.

4. Avoid dysfunctional politeness by candidly addressing the really important matters that concern you and, in your best judgment, should also concern the board. The challenge, however, is to respectfully disagree with others without being disagreeable and, after sharing your reasoning, to close ranks with the majority vote as a member of the team. Your personal style matters as much as your chief executive's. And remember this oldie but goodie: "We should see ourselves as others see us."

5. Know what your organization does and whom it serves. While knowing everything about your organization may be impossible, knowing little or nothing about it is an abdication of your responsibilities and could place it and you in a bad place.

6. Never miss an opportunity to say something good about your organization, or fail to bring back a good idea that a constituent or member might share with you on the road. You should always see yourself *and be seen by others* as an ambassador and advocate for your organization.

7. As long as you're a board member, make your organization a very top priority in your charitable giving.

8. Practice due diligence and patience. Ask good and timely questions.

9. Help your board to go beyond compliance and to do the right thing at all times.

10. Understand that being a good follower is at least as important as striving to be a good leader. In fact, one mark of a good leader is knowing when to follow. Personal humility, a sense of humor, and not taking yourself too seriously have their places in the boardroom. Strive to be the same person in the boardroom that you are outside of it.

As nonprofit organizations continue to evolve, strengthen their governance, and keep their own houses in order, governments at all levels are less likely to impose burdensome regulations and expensive compliance requirements. Do your part to ensure your board balances its authority with self-restraint, delegates authority where appropriate without abdicating its governance responsibilities, and channels enthusiasm and commitment into appropriate behaviors.

Great progress has been made within the past several decades to strengthen the performance of nonprofit boards through the talents and commitment of millions of citizens who serve on them. This bodes well for the entire sector and the people it serves every day in the decades to come.

APPENDIX I

INDIVIDUAL BOARD MEMBER RESPONSIBILITIES

Although governing boards have the responsibilities discussed in this book because they have the *legal authority* to exercise them, their individual members do not. Indeed, while board members possess considerably different yet complementary *responsibilities* to those held by the board, they do not possess the board's legal standing (except when the board may delegate to its officers or other members certain and limited authority to act on its behalf on specific matters).

Clearly articulating the board's corporate responsibilities and authority (preferably in the bylaws) and the responsibilities and expectations of board members (preferably codified in separate policies) are best practices. Asking leading peer organizations with missions similar to your own for copies of their bylaws and statements of board member expectations may be helpful to developing your own versions. The illustration provided here can serve as a framework to write your own Statement of Commitment.

Such a statement of individual board member responsibilities adapted to the organization's mission and needs will serve at least two purposes. First, when recruiting new board members, it helps to clarify what the organization expects before candidates accept the invitation to be nominated. Second, it can provide criteria by which the governance committee identifies and recruits prospective nominees and reviews the performance of those eligible for re-election or reappointment. Prospective and incumbent board members should be able to fully commit to the following illustrations of generally accepted responsibilities.

GENERAL EXPECTATIONS

- Know the organization's mission, purpose, goals, policies, programs, services, strengths, and needs.
- Serve in leadership positions and undertake special assignments willingly and enthusiastically.
- Avoid prejudiced judgments on the basis of information received from individuals; urge staff members with grievances to follow established policies and procedures through their supervisors. All significant matters coming to you should be called to the attention of the chief executive and/or the board's elected leader as appropriate.
- Follow trends in the organization's field of interest and keep informed.
- Bring goodwill and a sense of humor to the board's deliberations.
- Suggest to the appropriate committee possible nominees for board membership who are clearly women and men of achievement and distinction and who would make significant contributions to the board and organization.

MEETINGS

- Prepare for and conscientiously participate in board and committee meetings, including appropriate organizational activities when possible.
- Ask timely and substantive questions at board and committee meetings, consistent with your conscience and convictions, while supporting the majority decision on issues once decided by the board.

- Maintain confidentiality of the board's executive sessions and when confidential information is given to you. Never speak for the board or organization unless authorized to do so, but also remember that *all* utterances from board members carry great weight with those within and outside of the organization. Private opinion on any matter is often construed by others as the board's official posture whether it really is or isn't.
- Suggest board and committee meeting agenda items occasionally to board leaders and the chief executive to ensure that significant, policy-related, and strategic matters are discussed.

RELATIONSHIP WITH STAFF

- Counsel the chief executive as appropriate, providing support through often difficult relationships with groups or individuals.
- Avoid asking the staff for favors, including special requests for extensive information that may take extraordinary time to gather unless they are part of ongoing board or committee work. Exceptions to this rule should require consultation with the chief executive, board chair, or appropriate committee chair.
- Remember that it is most appropriately the chief executive who is responsible for assessing staff performance, not board members or the board. Most chief executives, however, welcome comments or opinions, offered during private conversations, that are complimentary or constructively critical of a senior officer or other staff member.

AVOIDING CONFLICTS

- Serve the organization as a whole rather than any special interest group or constituency. Even if you were invited to fill a vacancy reserved for a certain constituency or organization, your first obligation is to avoid any preconception that you represent anything other than the organization's best interests.
- Avoid even the appearance of a conflict of interest that might embarrass the board or the organization; disclose any possible conflicts to the board chair in a timely fashion.
- Maintain independence and objectivity and do what a sense of fairness, ethics, and personal integrity dictate, even though not necessarily obliged to do so by law, regulation, or custom.
- Never accept (or offer) favors or gifts from (or to) anyone who does business with the organization.

FIDUCIARY RESPONSIBILITIES

- At all times, exercise prudence with the board in the control and transfer of funds.
- Faithfully read and understand the organization's financial statements and otherwise help the board fulfill its fiduciary responsibility.

FUNDRAISING

- Give an unrestricted annual gift and restricted program or project support in line with your particular interests and personal means. Always do your best to set an example for other board members. As a board member, the organization should be at the top of your philanthropic list.
- Remember, giving one's time and expertise, as important as they are, are not substitutes for providing financial support

according to one's capacity. As one experienced and exemplary director candidly said, "Nonprofit organizations need money, and money simply has to come from those who have it. They also need our time, but time does not substitute for money. If board members don't support their own organization, why should anyone else?"

- Assist the development committee and staff by helping to identify potential givers and implement fundraising strategies through personal influence where you have it (corporations, individuals, foundations).

AMBASSADORIAL SERVICE

- Serve your organization responsibly and diligently by telling the organization's story and presenting its accomplishments as well as its needs and current challenges. You are your organization's logo.
- Represent, as well, your community to your organization. Bring back concerns, ideas, suggestions, compliments, and the like when you believe they may have merit. Remember, as a board member, you are at the nexus of two-way communication. You can also be an effective advocate for your organization's mission and purposes. Never shy from an opportunities to leverage your organization's hopefully strong reputation to move from an ambassadorial posture to a more assertive, more focused and purposeful *advocacy* initiative when that can make a real difference.

APPENDIX II

ILLUSTRATIVE SELF-ASSESSMENT SURVEY FOR INDIVIDUAL BOARD MEMBERS

High-performing governing boards periodically review the performance of their members, those who are eligible for renomination and election or appointment to new terms. This responsibility ordinarily falls to the governance committee or the board leadership committee. Particularly in relatively new organizations or those with smaller boards that do not yet have a full committee structure, this responsibility could be delegated to the officers on the board.

For those eligible for renewal of their terms, the committee should review meeting attendance, records of personal philanthropy to the organization, and/or evidence of help with fundraising and advocacy efforts, and other indicators of their commitment to the organization and its mission. Thus, the chief development officer, board chair, and chief executive should always participate in committee meetings.

Beyond clarifying expectations for all directors, often in the form of a statement of individual board member responsibilities (see Appendix I), increasing numbers of boards are developing their own self-assessment surveys for board members being considered for new terms. Such surveys ask those who are eligible for new terms to provide certain information to the committee several months before their current terms ends. The survey form is typically brief (two or three pages) and returned directly to the chair of the appropriate committee by a suggested date. The results are shared only with the committee's members.

A self-assessment survey that can be adapted by most nonprofit organization boards for use with *individual board members* follows.

Self-Assessment Survey For The Directors Of

[name of organization]

Service on the [organization name] Board of Directors is both an honor and a substantial responsibility. Because the board strives to achieve the highest possible levels of commitment and performance for itself and for its members, all directors eligible for renomination to new terms are asked to respond candidly to this survey. *It is shared confidentially only with the governance committee*.

Its purpose is to enable the committee to have a clearer understanding of how you view your experiences and contributions to the board's work and responsibilities, your wishes about the possibility of continuing your service, and your suggestions to help us to take fuller advantage of your talents and interests. This information supplements what is already known about your commitment to our organization's mission and purposes, and we appreciate your providing it.

Please write clearly and return the survey by *[date]* to the chair of the governance committee. On behalf of your colleagues on the board of directors, thank you very much!

Name: ____

Date: ____

1. As a director, are you reasonably clear about what is expected of you?

   _____Yes _____No Comment?

2. Do you believe these individual board member responsibilities constitute a reasonable set of expectations?

   ____Yes ____No Comment?

3. Please tell us what aspects of your directorship have been the *most* satisfying to you thus far, especially within the past few years?

4. What aspect of your service on the board has been the *least* satisfying and enjoyable?

5. Are there ways in which your talents and interests can be more fully realized at or between board or committee meetings? Does anything occur to you that would enhance your effectiveness and contributions to the board's work?

6. With regard to your current committee assignment(s), how satisfying is/are your current committee assignment(s)? Do you wish to be considered for a change in committee assignment in the near future?

7. Are you satisfied with your attendance

   • at board meetings?

   _____Yes _____No Comment?

   • at committee meetings?

   _____Yes _____No Comment?

8. Are you satisfied with your personal commitment

   • to the board's annual goal in its unrestricted collective giving?

   _____Yes _____No Comment?

   • to our organization's current campaign, project, or other restricted purpose that is of special interest to you personally?

   _____Yes _____No Comment?

- to helping our development staff to identify (or to cultivate where possible for you) prospective individual, corporate, or foundation donors?

_____Yes _____No Comment?

9. Do you faithfully prepare for meetings by reading the materials provided in advance?

_____Yes _____No Comment?

10. Do you have a good grasp of the organization's financial condition, needs, and priorities?

_____Yes _____No Comment?

11. Have you suggested an agenda item or issue to a committee chair, the board chair, or chief executive for consideration within the past couple of years?

_____Yes _____No Comment?

12. Have you taken advantage of any opportunities to tell others about our organization's work, programs, and services within the past few years?

_____Yes _____No Comment?

13. Do you consider yourself to be an active participant in board and committee meetings?

_____Yes _____No Comment?

14. Has anyone asked you to do something for our organization between regular board meetings within the past few years?

_____Yes _____No Comment?

15. Do you faithfully respect the need for directors to maintain confidentiality of the board's deliberations and certain information provided to you?

_____Yes _____No Comment?

16. Are you satisfied that you consistently exercise objective and independent judgment for the organization as a whole and not only for particular part(s) of it?

_____Yes _____No Comment?

17. Do you continue to be satisfied that your service on the board is compliant with the board's conflict-of-interest and disclosure policy?

_____Yes _____No Comment?

18. Please rate the *overall* degree to which you believe you have met the individual board member responsibilities for this board. On a scale of 1 to 4 (please circle):

1 (very consistently) 2 (somewhat consistently)

3 (adequately) 4 (poorly)

How would you best describe your intention or wish with regard to renomination to a new term?

_____ Yes, with enthusiasm

_____ Yes, with considerable interest

_____ Yes, I think so (but I would welcome an opportunity to speak with________________________________ at his or her convenience before I fully commit to this possibility).

_____ Thank you, but I'm not interested in continuing on the board at this time.

Please provide any closing comments or suggestions concerning your board service and how the board as a whole might strengthen its effectiveness.

Thanks!

Please return your survey in the self-addressed envelope provided or mail to:

[name, address, and email of the Governance Committee chair]

ABOUT THE AUTHOR

Richard T. (Tom) Ingram is president emeritus of the Association of Governing Boards of Universities and Colleges (AGB), having served as president for 13 years through 2005, previously as executive vice president for 18 years. He is a consultant, facilitator, speaker, and writer on nonprofit directorship and academic trusteeship.

Ingram has served on the boards of trustees of three private colleges, the Council for Advancement and Support of Education (CASE), an independent secondary school for girls, a higher education association, a multiple-employer health insurance company, and a mutual liability insurance company where he was a founding director. He currently serves on the board of Concorde Career College, which offers allied health degree programs on 16 campuses in the United States, and as a senior advisor on board-president relationships with the Council of Independent Colleges (CIC) based in Washington, D.C.

In addition to facilitating workshops with the boards and chief executives of many colleges, universities, and independent schools, Ingram has worked with scores of nonprofit organizations including the Bush Foundation, American Institute of Architects, Independent Sector, Special Olympics, National Symphony Orchestra, Appalachian Mountain Club, and the American Hospital Association. He has worked with educational and other organizations in Bolivia, Canada, Spain, Mexico, South Africa, Japan, Turkey, and the United Kingdom.

Now in its third edition, this BoardSource publication has sold more than 300,000 copies. Ingram has written for such publications as *CASE Currents, Educational Record, The Chronicle of Higher Education,* and *AGB's Trusteeship* magazine, among others. He has also written pamphlets and books on collegiate trusteeship.

Early in his career, Ingram held various positions at the University of Maryland, taught public school, and served as an adjunct instructor for the University of Virginia, University of Pennsylvania, and the University of Southern California. As an officer in the United States Army (1969-1971), he served as director of admissions for the U.S. Military Academy Preparatory School and as an operations research officer in Vietnam.

A native of Western Pennsylvania, Ingram earned his bachelor's degree from Indiana University of Pennsylvania, a master's degree from the University of Pittsburgh, and a doctorate in higher education from the University of Maryland. In 2006, he was awarded an honorary Doctorate of Humane Letters from Mitchell College. He resides in Potomac, Maryland with his wife, Mollie.